Gains and Losses Caused by Rising Prices

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THE enormous advance in prices, which has taken place in the past five years, has caused disturbances, material and psychological, so grave as to be comparable with those directly caused by the waste and destruction of the war itself. The unsettled condition of people's minds in relation to the familiar concerns of daily life, which has attended the disarrangement of price relations, has contributed no inconsiderable share to the social unrest with which the world is beset. While the general level of prices has, let us say, doubled, many large classes of incomes have remained stationary, or nearly so, and others have tripled, and quadrupled, and more. In this situation, owing to the very general tendency of human beings to cry out when they suffer loss or injury and to say little or nothing when they are the recipients of unexpected gain, it was inevitable that the air should be filled with lamentations, while of rejoicing over good fortune little is heard by the public. And, aside altogether from this peculiarity of human nature, it is only too true that such a disturbance of prices as we have been witnessing must be thought of as preponderantly evil. When, through no merit of their own, but through the automatic effect of a change in the monetary situation, one class of persons is enabled to indulge in unaccustomed luxuries, this cannot be regarded as an offset to the hardships of a lowered standard of living to which, through no fault of their own, that same change subjects another class.

High Prices Distinguished from High Cost of Living

All this should be clearly admitted and understood. But it is nevertheless true that a considerable part of the popular feeling on the subject, a considerable part of the indefinite discontent which the situation arouses, may be ascribed to an unfortunate use of language. It may seem fantastic to assert that if, instead of "high cost of living," we had all habitually spoken of "high prices," a great deal of error, both intellectual and emotional, would have been avoided. But that is the sober truth. "High cost of living" instantly and inevitably suggests hardship; it naturally brings up the thought that everybody has to do more work in order to get the same "living." In point of fact, long before the war, and when the rise of prices, though serious, was trifling in comparison with the present scale, the constant use of the phrase "high cost of living" had engendered a widespread feeling not only that life was becoming more and more difficult for people in general, but also that this phenomenon was an inevitable part of the development of modern civilization. This feeling could not have arisen, or at least could not have attained such prevalence, if people had habitually spoken of "high prices,"

instead of "high cost of living." The community as a whole *may* suffer from a genuine *high cost of living*—a high cost of living brought about by a falling off in productive power; but there is nothing in the mere fact of *high prices* that necessarily suggests such a falling off. As a matter of fact, in the pre-war period the high prices were neither caused, nor supposed to be caused, by any decline of productivity; the *real* cost of living of the community as a whole had not increased; its total income as measured in the volume of commodities and services at its disposal was not lessened; and the only way in which anybody had been affected adversely was through his particular income not having risen by as great a percentage as that by which the general level of prices had been increased. Some incomes had risen by more, and some by less than this latter percentage; if all had risen by the same percentage, nobody would have been either gainer or loser. And, while "the man in the street" might not always have borne this in mind, yet it would never have been far from his thoughts if he had been in the habit of talking and hearing of "high prices;" whereas the phrase "high cost of living," with its strong and instinctive implication of evil, stands in the way of any thinking that he might otherwise do on the subject.

FACTORS IN THE RISE OF PRICES

Actual Scarcity.—During and since the war it has unfortunately been true that the cost of living has risen in the true sense as well as in the sense in which the phrase is popularly used. There has been destruction of capital, devastation and impairment of natural resources, all on a great scale; and, though these things have not taken place in our country, the vast exports that we have made to supply the deficiencies of Europe have had the same effect on our home supply—for the time being—as diminished productivity would have had. Enormous governmental expenditures—in other words, the diversion of effort and of natural resources from productive to non-productive purposes—have produced an effect of the same nature. Moreover, there is good reason to believe that there has been a slackening of working power caused both by lessened hours of work and by diminished energy in the worker, which has contributed another important item to the lessening of productivity. On the other hand, it ought not to be overlooked that there has been a large accession to the working forces of the country through the addition of hundreds of thousands of women to the ranks of the wage earners and salary earners. On the whole, it seems clear that actual scarcity, the net result of these various causes, has been a considerable factor in the rise of prices. But a moment's reflection must suffice to show that by far the greatest element in the case is the fall in the purchasing power of money caused by the great increase in the volume of the monetary medium; that is, of ordinary currency and of bank credits. For, while this volume has been increased by about 100 per cent, anybody who looks about him and sees what people are eating, and wearing, and enjoying generally, must realize that if the supply of commodities has diminished, it has cer-

tainly diminished by but a small fraction of such a percentage. In the main, then, what is going on around us is the long-familiar phenomenon of rising prices caused by an increase in the volume of the monetary medium; the rise, however, in the present instance being of an extent and rapidity never before witnessed in so vast a field, and presenting also some peculiarities due to the special circumstances of the time.

Decline in Purchasing Power of Money.—When such a rise of prices—such a fall in the purchasing power of money—takes place, most classes of income suffer (or the reverse) only through the irregularity with which the rise is put into effect. But there is one large class that takes a dead loss, with no compensation or readjustment. Incomes derived from fixed money obligations due to their possessors by others continue to yield the number of dollars nominated in the bond and no more, however rapidly the purchasing power of those dollars may decline. Interest on bonds issued by governments or corporations; interest on long-term mortgages; ground rents, either irredeemable, or having a long term of years to run, or redeemable at the pleasure of the lessee at a fixed capitalization, are instances of this kind of income. The loss suffered by the lessened purchasing power of the monetary unit in incomes of this kind continues (supposing that the high prices continue) without any compensatory gain during the entire term for which the obligation runs. And even at the end of that term there is no assurance that any compensating factor will enter into the case. Those who invest money *during* a time of steadily rising prices do find some compensation for the loss in the value of their principal in that rise of the rate of interest which both theoretical considerations and practical experience show to be an accompaniment of rising prices. But *high* prices, as distinguished from *rising* prices, have no tendency whatever to cause an increase of the rate of interest. Accordingly, the holder of a bond of which the principal falls due *after* the period of rising prices has ended, but while the high level of prices is still maintained, gets no offset for the fall in the value of his principal through any increase in the rate of interest.

In the case of annuities, of course, the loss is still more evidently without compensation, annual income being the only element in the case. It is one of the remarkable facts in the story of this period of falling value of money that one has heard so little of the sufferings of those whose incomes, being in whole or in part definitely fixed in terms of money, have been so disastrously cut down. In the days of falling prices, in the '80's and '90's of the last century, the heavens were rent with the outcries of the "debtor class." It is a most noteworthy circumstance that nothing of the kind is heard in these times from the creditor class, nor is it without interest to observe that the "debtor class" is as mute over its blessings today as it was vociferous over its injuries thirty years ago.

ADJUSTMENT OF SALARIES AND WAGES TO INCREASED PRICES

Apart from the case of fixed money income, the way in which different

classes are affected by the rise of prices turns on the slowness or the rapidity with which the price commanded by the commodities or services which they supply becomes adjusted to the general rise. It is a familiar fact that salaries are slowest of all to respond. There are many reasons for this. One is that salaried positions are more individual in their character than are wage-workers' jobs. A person holding a salaried position runs a kind of risk in giving it up quite different from that which even a skilled workman, not to speak of an unskilled laborer, encounters. The question of organization has comparatively little to do with the case. No class of workers, perhaps, has had its compensation more strikingly increased than that of domestic servants, who have no organization at all; the great point in their case is that they have no difficulty in finding new jobs when they throw up their old ones. Most classes of salaried workers are very differently placed in this regard. But there is also another factor which exercises a great influence in the matter of salaries. Once raised, it is difficult to lower them, and employers hesitate to make what they feel would be a permanent advance in their expenses when they are not certain of the permanence in the rise of prices. Where very large profits have been made by business concerns, they have, in a great many instances, made handsome additions to salaries in the shape of a bonus at the end of a year; but this has been far from being so general in practice as might be desired. Moreover, a large proportion of all the salaried classes are in the service of governmental and other public institutions. In the case of government officials, the raising of salaries has been impeded both by mere inertia and by the justified feeling that salaries once raised by law are almost sure to stay at the advanced point, whatever may happen in the way of a fall of prices. Nobody heard of any government salaries being lowered during the period of low prices which covered a large part of the last quarter of the nineteenth century. The proper way to deal with the problem is to make advances in salaries promptly, but in a way that makes their continuance explicity dependent on the level of general prices. The case of college and university professors—other than those in state and municipal institutions—stands in a different category. The endowed college or university has limits set to its expenditure by the income from its invested property; and the consequence has been a lowering of the professor's ability to meet the requirements of his standard of living which has taken on the dimensions of a great public as well as personal evil. In many cases, relief is now in sight, through the great "drives" which are being made, and through the promised aid of the General Education Board. Finally, it ought to be remarked in regard to the salaried classes in general that if prices should ultimately come down, after salaries have been adjusted to the high level, this class will experience a gain which will be a counterpart to the loss they are now suffering. Salaries will be even slower to come down than they were to go up; and their possessors will find themselves automatically in the receipt of a higher real income through the fall of the

prices of those things which go to make up their "living."

Economists have always justly pointed out that in a period of rising prices, brought about by an increase in the volume of money, the rise in wages lags behind that in commodities. The demand for commodities, as measured in terms of money, rises promptly, being the natural vent for the new money at the command of purchasers. Those who had the goods mark them up as soon as it becomes apparent that the supply will not hold out to meet the demand at the old prices; but the raising of wages is a more serious matter. It hangs back for the same kind of reasons (though in a far less degree) as the raising of salaries. However, the impact of the new volume of money during the period of the great war was of a different character from that which takes place in ordinary instances of increase in the volume of money. What happened was not a gradual infiltration of the new money, but a sudden imperative demand for enormously increased production in certain definite directions. That demand took the shape, so far as money is concerned, of vast issues of bonds and notes in Europe and of a great flow of gold and expansion of credits in this country; and it was directed toward a tremendous stimulation of production of munitions and other supplies incident to the prosecution of the war. Accordingly, over a large part of the labor field there was immediately so intense a demand for labor as to bring about amazing increases in rates of wages in the occupations affected. Millions of working people, therefore, have not suffered from "high cost of living" at all; on the contrary, they have been able to live better than ever before, because their pay has increased more rapidly than prices have risen. This phenomenon—due to a definite cause other than the mere fall in the value of the monetary unit—so far from discrediting the traditional economic view of the matter, actually gives occasion for a confirmation of it. For, in spite of the natural tendency in a rise of wages in one field to raise wages in all, it seems to be thoroughly established by statistics that the average of all wages has even now, at the end of five years, hardly caught up with the rise in the "cost of living."

RECIPIENTS OF PROFIT CAUSED BY RISING PRICES

The case of the independent producer—whether he be farmer or manufacturer, individual or corporation—and of the "business man"—whether he be merchant, or banker, or middleman—is in strong contrast with that of the salaried man or the wage earner. In a time of rapidly rising prices, the man whose income is derived from the profits of production or trade is constantly the gainer by the change of prices. The costs of his business—fixed charges, rents, wages and salaries—are slower to rise than the prices at which he sells his products or which he is able to charge for his share in the process of sale. Moreover, he buys his raw materials, or the wares in which he deals, at the prices of today, while his sales are made at the advanced prices of, say, six months hence. This state of things has always been recognized as being the explanation of the "business prosperity"

which attends a time of rising prices; a prosperity which consists in the business man making exceptional gains at the cost of the classes which, as we have seen, are suffering from the very cause that makes his situation so fortunate. It is idle to rail at this as "profiteering." You cannot keep prices down while money, or what serves the same purposes as money, keeps getting more and more abundant—unless, indeed, you compelled people to keep their money idle, which none of the profiteer-hunters has ever proposed. Moreover, if prices keep rising, business profits are bound to be swollen during the process. It may be wise to impose a special tax upon these profits; that is a separate question. The profits themselves are an inseparable incident of the process of rising prices. A merchant or manufacturer might, indeed, sell his goods at a lower price than the market afforded; but, unless there was a conspiracy of such self-denial covering the whole range of production and trade, the money thus released to the purchaser by one dealer would remain effective to boost the prices which others, either in his own or in other lines, would obtain. The thing is too fantastic to be considered. To be sure, there has been "profiteering" that is reprehensible; in the confusion and turmoil of a period of rapidly changing prices, advantage has been taken of ignorance, of the difficulty of keeping track of prices, of peculiar exigencies which do not reflect real market conditions; but in the main, the great profits that have fallen into the hands of producers—by no means excepting the "honest farmer"—and business men have been not the result of any wrong practices on their part but the outcome of economic conditions over which they have no control. The spectacle of so many persons growing rich while so many others are reduced to sore straits to keep up a decent standard of living is undeniably offensive to one's sense of justice; but it is idle to indulge in vaporous denunciation of persons who, favored by fortune, have been guilty of no wrong, or to expend upon worse than futile schemes of punitive repression energy which might be directed toward rational consideration of economic policies.

Deflation a World-Wide Problem

Just what may be done with safety, and with a just regard for the rights and interests of all classes, to bring prices down to a lower level is one of the most difficult of all economic questions. Its consideration, even in a superficial way, is beyond the scope of this article. But it is not out of place, perhaps, to say a few words on the subject. The problem, difficult as it is in our own country, is infinitely less difficult than it is in the European nations, in which the gold standard has been abandoned under the stress of war, and which have to consider not only the method, but also the basis of a return to it. All our dollars are as good as gold; but there is a large margin of choice as to the volume of notes and credit which we may maintain upon the gold standard; and the value—the purchasing power—of the gold dollar itself depends upon that volume. Its expansion tends powerfully to lower the value of the dollar, and its contraction to raise it;

a state of things quite other than that which existed in normal times, when the value of the dollar—that is, the value of the gold that is contained in a dollar—was influenced comparatively little by the monetary or banking policy of any one country, the gold standard being common to almost the whole commercial world. A policy of cautious but consistent "deflation" would bring about a gradual lowering of prices. This would correct some of the injustices of the existing situation, which are certainly serious enough to demand correction, if correction is attainable. The great difficulty that must always be borne in mind in the pursuance of such a policy is that the process of falling prices, while perhaps not more painful, is incomparably more dangerous than that of rising prices. Rising prices hurt people as consumers; falling prices hurt them as producers and business men. And unfortunately anything that hurts producers and business men has disastrous consequences far beyond the mere increase of their "cost of living." If their business shows a loss, or even a profit much below normal, the consequence may be bankruptcy and is almost sure to be a curtailment of enterprise; in either case we are confronted not only with a lessening of supply, but also with the spread of unemployment, which in turn further lessens the chances of gainful business. Indeed, it should be noted as one of the compensations which wage workers get in a period of rising prices, that in such a period, owing to the prevalence of business prosperity, employment is abundant and steady; and, by the same token, in a period of falling prices there is danger of a large amount of unemployment. All this, however, merely emphasizes the necessity of great caution and of expert skill in the carrying out of any policy of deflation; it does not mean that such a policy, properly safeguarded, should not be undertaken. On the contrary, it is of the first importance to recognize the necessity of such a policy, and of steady though cautious pursuance of it, as the one great means by which government and the banks can bring about some relief from the evils of the "high cost of living."